EXECUTIVE SECRETARIAT

ROUTING SLIP

TO:

		ACTION	INFO	DATE	INITIAL
1	DCI		X		
2	DDCI		X		
3	EXDIR				
4	D/ICS				
5	DDI				
6	DDA				
7	DDO				
8	DDS&T				
9	Chm/NIC				
10	GC				
11	IG				
12	Compt				
13	D/OLL		X		
14	D/PAO				
15	VC/NIC				
16	NIO/ECON		X		
17					
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SUSPENSE ______________
Date

Remarks

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[redacted]

Executive Secretary

8 Jul 85
Date

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Executive Registry
85- 2923
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THE WHITE HOUSE

WASHINGTON

July 5, 1985

MEMORANDUM FOR THE ECONOMIC POLICY COUNCIL

FROM: ROGER B. PORTER RBP

SUBJECT: Textile Correspondence

Secretary Baker has asked that I send you a copy of the letter he received from 175 members of the House of Representatives regarding the Textile and Apparel Trade Enforcement Act.

Attachment

DCI EXEC REG

L-300B

 85-13202

Congress of the United States
House of Representatives
Washington, DC 20515

June 28, 1985

Honorable James A. Baker, III
Chairman Pro Tempore
Economic Policy Council
Department of the Treasury
Washington, D.C.

Dear Jim:

We must take exception with your letter of June 19, 1985, in opposition to H.R. 1562, the Textile and Apparel Trade Enforcement Act of 1985. The jobs of a million U.S. workers are at stake.

The passage of this timely legislation is essential if the United States is to have a domestic fiber, textile and apparel industry in the next ten years. It is high-time the Administration faces reality with respect to the devastating effect imports are having on the American economy. Despite the measures which the Administration has taken, imports have doubled, 250 plants have closed their doors, and the employment in the textile industry is at its lowest point in several decades. Over 100,000 jobs have been lost in the last year alone.

You expressed your concern about the domestic consumer. If we persist in giving away our domestic production to plants overseas, it is domestic consumers who will pay the price. Historically, price increases of domestic textiles and apparel have been around 50% of the U.S. inflation rate due to the competition among U.S. textile and apparel producers. Before long we will not have a domestic industry and we will be depending on foreign sources for all our needs. H.R. 1562, as introduced, would allow foreign sources 38% of our market plus annual growth.

Should we continue to depend on strictly foreign sources, we will most likely see a repeat of the situation where the last U.S. velveteen producer was forced to close his door -- within hours the foreign producers raised their prices for the fabric by $1.00 per yard. Did the American consumer win? What will happen when we have to depend on overseas sources for all our goods?

Data Resources, Inc., in a recent analysis, showed that limiting import growth to the growth of the domestic market would have a minimal effect on price levels and would avoid many adverse effects which will result if the current trend in imports continues. As you may recall, the President made a commitment to do just that.

We maintain that the legislation is completely consistent with the objectives of the MFA and that it would mandate actions very similar to those taken unilaterally by the European Community several years ago. The EEC cut-back trade from major suppliers, set up low growth rates and a global approach on imports. Those actions were accepted and in fact, the MFA itself was modified through a protocol of understanding to specifically permit the kinds of actions taken by the EEC.

Honorable Jim Baker
Page Two
June 25, 1985

Reality dictates that strong action be taken. We are prepared to take that action.

Sincerely,

James T. Broyhill
Ed Jenkins
[illegible]
J. Roy Rowland
Carroll Campbell
[illegible]
George (Buddy) Darden
Charlie Whitley
Wayne Dowdy
Doug Barnard Jr.
Ronnie Flippo
Lindsay Thomas
Richard Ray
John Spratt
Paul E. Kanjorski
Marty Russo
Bill Nichols
W. D. (Bill) Hefner
Don Ritter
Bill Hendon
Bud Hillis
Claudine Schneider

Ray McGrath	Dick Schulze
John J Duncan	Frank Annunzio
Beryl Anthony Jr.	[illegible]
Hal Rogers	Barbara B. Kennelly
Trent Lott	Tom Bevill
Dave Martin	Thomas J. Manton
Dean A. Gallo	Carl D. Perkins
Gene Snyder	[illegible]
Joe Gaydos	Barbara A Mikulski
John Bryant	Thomas Foglietta
[illegible]	Robert A Roe
Bud Shuster	Norman F. Lent

[illegible]

Mary Rose Oakar

Norman Sisisky

Dick Durbin

[illegible] DOUG BOSCO

[illegible]

Joe Moakley

Cardiss Collins

Dick Gephardt

Buddy Mac Kay

Chet Atkins

Claude Pepper

Michael A. Andrews

Charlie Rose

Ted Weiss

[illegible]

[illegible]

Edward R. Roybal

D. M. Hertel

Ronald V. Dellums

Pat Williams

Martin Frost

Marvin Leath

Howard Wolpe

Vic Fazio

[illegible]

Marilyn Lloyd

Ronnie Flippo

[illegible] Watkins

Alan Mollohan

Charlie Rose

Steve Neal

[illegible]
Fuqua

Richard Shelby

[illegible]
Erdreich

James H. Quillen

[illegible]
Bill Nichols

Earl Hutto

Beverly Byron

G. V. Montgomery
Sonny Montgomery

Harold L. Volkmer

Buddy Roemer

Jim Wright
Wright

Bill Boner
Boner

Robert A. Young

John J. Duncan
J. Duncan Jr.

Mary Rose Oakar

Gus Yatron

Tommy Hartnett

Bart Gordon

[illegible]

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Floyd Spence

Bill Cobey

Robert C. Smith

Sherwood Boehlert

Newt Gingrich

Tony P. Hall

Helen Delich Bentley

[illegible]

Jamie L. Whitten

Albert G. Bustamante

Bob Borski

Jim Weaver

Robert J. Mrazek

Barney Frank

Robin Tallon

G. V. Montgomery

Bill Alexander

Don Sundquist

Manuel Lujan Jr.

Charles A. Hayes

Bill Dickinson

Parren J. Mitchell

Walter B. Jones

Ed Jones

John P. Murtha

Tim Valentine

J. Alex McMillan

[illegible]

Duncan Hunter

[illegible]

[illegible]

H L Callahan

Robert C Smith

Howard Coble

Austin J Murphy

Lane Evans

[illegible]

Olympia Snowe

David Dreier

Trent Lott

Dan Daniel

Stan Parris

William Whitehurst

Norman Sisisky

[illegible]

Frank R. Wolf

Tom Bliley

[illegible] Bateman

Jim Olin

Rick Boucher

Cardiss Collins

[illegible]

[illegible]

[illegible]
Clay

Roy Dyson

Tom Lantos

[illegible]

[illegible]

Doug Walgren

William H Natcher

[illegible]

Bruce A. Morrison

[illegible]

[illegible]

Peter W. Rodino Jr

[illegible]
St Germain

Jim Cooper

[illegible]

Bill [illegible]

[illegible]

Tom Carper

[illegible]

Mickey Leland

[illegible]

[illegible]

[illegible]

[illegible]

Answers to the Administration's Fact Sheet on Implications of the Textile Quota Bill

In opposing H.R. 1562 and S.680, the Administration has made reference to a number of things it has done to help the U.S. fiber, textile and apparel complex.

These actions have been ineffective and clearly insufficient. Indeed, they are the reason this legislation has been introduced.

Administration's Actions to Help the U.S. Industry

O The Administration claims that it has acted consistently and forcefully to protect firms and workers from disruptive imports. The facts show otherwise. The agreement negotiated in 1983 with China provided an annual growth in quotas of 10.1 percent. Agreements negotiated in 1982 with Hong Kong, Korea and Taiwan were supposed to control shipments to one to two percent annually, but since 1982 imports from these three countries increased 40 percent. Other major suppliers were permitted tremendous increases in their shipments to the U.S. For example, Indonesia has increased 213 percent just since 1983; India has increased 54 percent; the Philippines 32 percent; and Brazil 51 percent. The result has been over 300,000 U.S. jobs lost in the textile/apparel industry since 1980.

O The Administration claims that in order to permit the industry to compete with foreign producers they have negotiated or imposed more than 300 quotas. It is correct that 300 new quotas have been imposed and should be helpful in curbing future import growth. However, there are two problems associated with these actions. First of all, the Administration has in many cases delayed for months putting on quotas until imports have risen to tremendously high levels, thus ensuring an import level which is very disruptive. Second, there are currently over 100 candidates for quotas which meet the market disruption criteria set out in the December 16, 1983 announcement on which the Administration has failed to act. These quota candidates represent about 500 million square yards of imports.

O The Administration claims that the new textile rules of origin will have a major impact on the program. The Administration is correct in saying that these new rules of origin will make legal quota evasion more difficult, but this will have little or no impact on the overall import problem. These new rules will curb quota evasion where a country has manufacturing done in another country but uses its own quotas. The new rules will transfer production back to the original country with the impact on trade being minimal. The rules are basically designed to prevent practices aimed at circumventing quotas.

(over)

0 The Administration claims that it strengthened the Multi-fiber Arrangement (MFA) in 1981 and then tightened up bilateral agreements with Hong Kong, Korea and Taiwan in 1982. This is only a small part of the story. The MFA was tightened in 1981 only after very strong pressure was brought to bear on the White House by members of Congress and the domestic industry.

After renewal of the Multi-fiber Arrangement the United States did use some MFA provisions to negotiate tighter bilateral agreements with Hong Kong, Korea and Taiwan. However, in order to get tighter limits on certain products the Administration negotiated away the country limits with these countries. Failure to continue these country limits has led to an increase today of imports from Hong Kong, Korea and Taiwan of about 500 million square yards. The absence of country limits and slowness by the Administration to react to import growth in uncontrolled categories led to increases in imports from these three countries of 40 percent since 1981.

0 The Administration claims that 80 percent of all imports from developing country suppliers are now under quota. The Department of Commerce _Major Shippers Report_ for April indicates that approximately 73 percent is under quota. This is _down_ from 81 percent in 1982. It is important to realize that even with 81 percent under quota in 1982, imports since 1982 from the low cost countries increased by over 3 billion square yards, or 59 percent.

0 The Administration claims that additional tariff protection is provided by relatively high tariff levels on textiles and apparel. Textile and apparel tariffs are relatively higher than those on other products because of the import sensitivity which they have. These tariffs were not cut as much as others during multilateral negotiating rounds because, upon advice of the International Trade Commission, the industry was found to be severely import impacted. The current high rates reflect the judgment of the International Trade Commission (ITC) when imports were less than half of what they are today. After the increased import penetration of the last four years the ITC would today almost certainly recommend few or no tariff cuts. Finally, because of the overvalued dollar, these tariffs afford only a fraction of the protection they did when the ITC gave its advice.

Many other countries' trade barriers are far greater obstacles to trade than are U.S. tariffs. Import licensing requirements which prohibit all or most imports, value-added taxes and tariff rates of 100 percent or more are found in many of the major countries supplying textiles and apparel to the U.S.

U.S. Market Conditions

0 The Administration claims that imports are being reduced so far this year. The 4.4 percent decline cited must be compared with a major decline in domestic shipments and production. The real value of apparel industry shipments is down 7.6 percent from a year ago while textile shipments have fallen 10.9 percent. It is important to note that the textile and apparel trade deficit so far in 1985 has been 9.4 percent higher than last year. Last year's deficit was a record $16 billion and was 13 percent of the record U.S. trade deficit.

The current pattern of imports represents a continuing increase in market penetration and a continuation of market disruption in spite of the modest import decline. It is also of interest that the import decline was centered in yarn and fabric. Through April, apparel imports were up from last year. The decline in imports is related to high inventories in the pipeline and to a sluggish domestic market. Recent analyses indicate that in the first quarter 1985 consumer offtake of apparel, at retail, was slightly below last year's first quarter.

0 The Administration claims that real textile shipments rose 8.3 percent during the Administration's first four years. They did not. They rose a mere 1.9 percent, and apparel industry shipments rose only 2.7 percent in real terms, not the 6.4 percent claimed. Indeed, for the 12 months ended April, 1985, combined domestic textile and apparel shipments were virtually unchanged from 1980 levels in real terms, as shown on the attached graph. Over this same period, imports increased by 100 percent from 5 billion square yards to 10 billion.

Effect on Consumers

0 The Administration's claim that consumers would pay higher prices with passage of this legislation, costing them some $14 billion a year, is theoretical and completely at odds with the results of econometric analysis by Data Resources, Inc (DRI). It is not known how the $14 billion estimate was made, but it is known that the U.S. has lost one million job opportunities because of the current import level which equates to a $40 billion loss in gross national product.

The DRI analysis goes on to show that if the bill does not pass, the growth in imports, in wiping out most of the domestic apparel chain of production by 1990, will:

- 0 Create unemployment for 1,890,000 Americans, 947,000 in the textile and apparel industries and another 943,000 in other industries because of the ripple effect.
- 0 Increase the federal budget deficit by $24 billion.
- 0 Lower consumer disposable income by $19 billion.
- 0 Lower GNP by $40 billion.
- 0 Have a minimal effect on price levels.

In short, the cost to the consumer is in NOT passing the legislation rather than in enacting it.

0 The Administration claims that foreign textile suppliers would reap additional windfall profits of about $2 billion because of quotas. However, no explanation is ... is made.

0 It is not likely that prices of textiles and apparel will rise as predicted by the Administration if this bill is enacted. History shows the rate of price increases in domestic textiles and apparel has always been less than U.S. inflation generally - even when textile and apparel imports were at levels far lower than they are. This is because of the intense domestic competition that has always existed among U.S. textile and apparel producers. Apparel production capabilities can expand as easily inside the U.S. as they have outside the U.S. The U.S. textile industry is currently operating at 77 percent of capacity.

0 Low income families include many apparel and textile workers earning $5.00 to $6.00 per hour. 947,000 of these workers will lose their jobs by 1990 unless the legislation is enacted.

0 The assumption that apparel imports are lower priced derives from the fact that they are produced more cheaply overseas. Research shows that there is very little difference in retail prices of imported vs. domestic apparel. The huge markup placed on imports by retailers are the reason consumers are not now benefiting from imported apparel and textiles.

Marginal Effect on Production and Employment

0 The Administration's claim that passage of the bill will have a minimal impact on domestic production obviously relates to 1984 levels. What the legislation does is to increase domestic output by 100 percent from where it would otherwise be in 1990 if import growth continues on its present course. Without the bill, textile and apparel employment in the short space of five years will drop by more than half from current levels.

0 The gains in production and employment are not small and unemployment of 1.9 million Americans is a very high price to pay for failing to pass the bill.

Retaliation Against U.S. Exports

0 The Administration is concerned about retaliation against U.S. exports, specifically corn, wheat, aircraft, cigarettes and tobacco. In reality, the U.S. is already being shunted aside in world demand for agricultural products, particularly cotton and wheat as a result of growth in foreign production capability and the overvalued dollar.

The China Situation

There have been phenomenal increases in production of most major agricultural products over the last several years and this has greatly reduced China's need for imports including grain.

According to the USDA, "This drop in agricultural imports was largely the result of decreased demand due to several years of high domestic production and excess stocks." It is expected that China will continue to increase its internal production and should be self-sufficient in wheat by the end of the decade, as it is now in cotton.

China-Production and Imports of Key Agricultural Commodities
(MM Metric Tons - Except Cotton)

	'80/'81	'83/'84	% Change
Wheat			
Production	55.20	81.40	47%
Imports	13.80	10.00	-28%
Soybeans			
Production	7.94	9.30	17%
Imports	0.54	0.00	-100%
Coarse Grains			
Production	81.00	85.00	5%
Imports	0.99	0.50	-50%
Cotton (MM Bales)			
Production	12.40	21.30	72%
Imports	3.60	0.20	-94%

As countries become newly industrialized, they seek to move into higher technology production, primarily for export. Many other countries are producing goods using export or production subsidies. U.S. competition in agricultural products as well as in aircraft reflects these developments.

Violation of 34 U.S. Bilateral Agreements in the MFA and U.S. Obligation Under the Multi-fiber Arrangement (MFA)

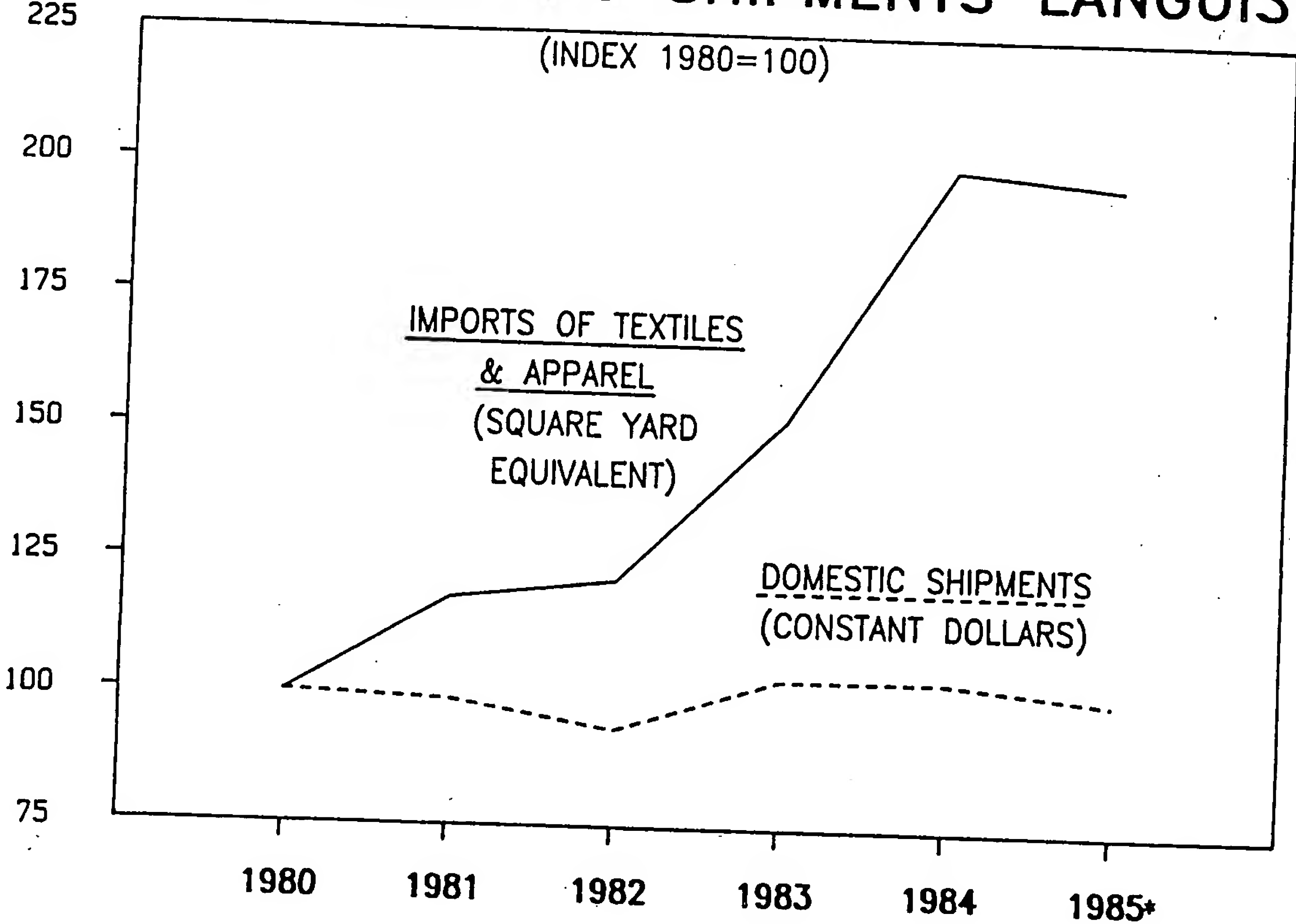
0 The Textile and Apparel Trade Enforcement Act of 1985 is fully consistent with the objectives of the Multifiber Arrangement (MFA) which are to prevent market disruption and provide for growth of developing country exports. The act concludes that there is wide spread disruption in the U.S. market because of the failure to enforce adequately the provisions of the MFA.

This bill would mandate actions similar to those taken in 1977 by the European Community (EC). The EC cut back trade from major suppliers, imposed very low growth rates and established a global concept to control key imports. When the EC took those actions no one retaliated, nor were any claims made that the EC acted inconsistently with the Multifiber Arrangement. In fact, the Multifiber Arrangement's protocol of understanding was formulated to permit the actions taken by the EC. A similar approach could be taken by the Administration.

0 All of the bilateral agreements need not be abrogated. There are provisions in each for an orderly termination. The Administration could also consult with each country and explain the actions mandated in the bill. The MFA expires in July, 1986 and if the U.S. decides not to participate in a renewal, MFA issues will become moot. However, in 22 of the bilateral agreement countries, the bill provides for an increase in trade of 15 percent in 1985 and a 6 percent annual growth there after (except for certain sensitive categories). Also, there is a precedent for re-negotiating agreements before they expire, as in 1979 and 1980 with Hong Kong, Korea and Taiwan.

IMPORTS HAVE DOUBLED SINCE 1980 WHILE DOMESTIC SHIPMENTS LANGUISH

(INDEX 1980=100)



* 12 months ended April.

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